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ABSTRACT

A unanimous 1997 state Supreme Court decision declaring Vermont's educational funding system unconstitutional prompted the legislature to pass Act 60 establishing state block grants and a guaranteed tax-yield system. Act 60 is working to provide equity in tax burdens and in tax rates. A variety of transitional features have helped to buffer wealthier towns from immediate, substantial local property-tax increases required to provide poorer towns with nearly-equivalent educational funding. The preliminary data indicate differences in spending are diminishing. A 1999 study by Lorna Jimerson indicates that historically poor schools are now making investments in maintenance and repairs. Act 60 requires a state-testing program, demands implementation of standards, provides technical assistance, and relies on direct state intervention when necessary. The Jimerson study found that districts were actively pursuing data-driven instructional improvement efforts. Earlier efforts to circumvent the capture of local tax revenue for funding equalization by raising private funds have been abandoned by all but a few schools, even as the legislature considers capping such gifts. Many districts object to funding caps on statewide support for special education, and relaxation of the caps, with additional monitoring, appears forthcoming. A projected 24 percent increase in health-insurance premiums may absorb a substantial portion of the equalization in funding. Recommendations for harmonizing property value assessments are currently being implemented. To address the vulnerability of small schools under per-student funding plans, the state provides an extra-student count multiplier for schools with fewer than 20 students per grade level. (TEJ)

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Vermont's Act 60: Early Effects of Comprehensive School Finance Reform

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I. Introduction

In 1997, in a unanimous state supreme court decision, the Vermont educational funding system was declared unconstitutional. Large inequities in property tax burden combined with the inability of poorer towns to raise sufficient monies to meet minimal state standards led to the decision.

Acting promptly, the legislature passed Act 60 which established a large block grant per pupil (about $5200) funded by a new statewide property tax of $1.10 per $100 property valuation. A guaranteed tax yield system was added as a second tier. This latter feature proved the most controversial. Many of the more affluent towns (called gold towns) did not take kindly to increased tax rates nor to sharing what they considered to be their money.

Reform opponents were rebuffed in a string of court cases. Efforts to impeach the Supreme Court also failed. On April 11, 2000, the last of the towns holding-out on state property tax revenues made their payment to the state. To date, opponents have not been successful in seating a working majority in the legislature.

A number of soft landing or transition features were built into the law so that the affluent towns were buffered from immediate and large tax increases. The lowest pre reform school tax rate was two cents while the highest was $2.40. The federal range ratio was 241%. Even though the more affluent towns had enjoyed historically low rates, seeing their school tax rate increase to $1.10 plus what they locally voted to spend above the block grant was still a huge proportionate increase. By FY01, these transition provisions are phased out.

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II. Are the Reforms Working?

Tax Burden Equity - If tax equity is the criteria, then the Act 60 reforms are working. Within Act 60, there is a tax burden cap. For all households earning $75,000 and less, their school tax is capped at no more than 2% of household income to support the state income tax. The protection phases out at $88,000 household income.

Local school districts can (and do) vote to spend above the $5200 block grant figure. If they do, they do so at a state guaranteed yield amount. For FY00, the guaranteed yield was set at $42 per pupil for each penny voted on the local tax rate. For FY01, the guaranteed yield is reduced to $40 which shifts about two to four cents to most local tax rates. The effective tax rates for most towns are between 2% and 3% of household income. Before Act 60, town average school tax burdens ranged from 0.0% to 8.2% of resident income. In FY01, the range was between $0.96 and $2.22 with the Federal Range Ratio reduced from 271% to 107%.

Thus, in terms of tax equity, the reform is clearly achieving its' goals for town to town equity and for individual taxpayer equity. Chart I demonstrates a very tight linear relationship between per pupil spending and effective tax rate.

Tax Rate Equity – Vermont adjusts the various town tax rates by a common level of appraisal based on sales history. The result is "School Equalized Tax Rates" which are comparable from town to town and over time.

	Range	5th%ile	95th%ile	FRR
FY98	$0.12-$2.28	$0.68	$1.95	187%
FY99	$0.17-$2.33	$0.89	$1.81	103%
FY00	$0.55-$2.22	$0.96	$1.84	92%

Clearly, the Federal Range Ratio (FRR) is getting smaller and tax rates are following the same pattern as tax burden. Thus, tax rates are becoming more equalized. There were slight technical changes in the data collection during these years and the FY2000 figures are not confirmed. Nevertheless, the minor differences in the data would not likely obviate the trend.

Educational Spending Equity – Preliminary data indicates that differences in spending are diminishing. The following analysis and Federal Range Ratios are based on "Local Education Spending" per pupil:

	Range	5th%ile	95th%ile	FRR
FY98	$4270 - $17,247	$5066	$8736	172%
FY99	$4564 - $12,421	$5010	$8397	167%
FY00	$4654 - $ 9131	$5037	$7926	157%

Spending equity is improving although not as face as taxpayer equity. Schools spending well above state averages are obviously facing pressures to reduce expenditures.

In FY99, Jimerson's twelve case studies found that historically poor schools were investing in deferred maintenance and repairs. For schools now facing higher tax rates, the most vulnerable areas were the "specials." Art, music, physical education and the like were the first targets for school boards seeking economies.

Vermont's culture, however, is historically based on the percent increase to the budget. Local boards are reluctant to bring forward budgets with large increases regardless of whether the tax impacts are small or large. Thus, the effect has been "small incremental changes" to the school budget with more significant tax savings. The tax rate and spending patterns noted above are consistent with this interpretation.

Educational Quality – As part of the Act 60 reforms, educational quality elements were implemented. These required a state testing program, implementation of standards, technical assistance to under performing schools, and ultimately, state intervention if technical assistance was not sufficient. Jimerson's study found that districts were actively pursuing data-driven instructional improvement efforts, were focused on the state curriculum standards in their "Action Plans," and many had implemented the new "School Reports."

In FY00, four schools were identified for technical assistance by the state based on low test scores. In year two, 39 schools were identified as in need of assistance. A most curious factor is that none of the original four schools were represented in the 39 identified the following year. A disproportionate number of poor schools and high schools were also identified -- which may be a reflection of the assessment program rather than the quality of the schools.

The state accountability program (based on the New Standards Reference Examinations and administered by Harcourt Educational Measurement), has been beset by scoring errors and late delivery. Anomalies in test scores have raised other questions. For example, the percent meeting standards in tenth grade mathematics basic skills dropped by twenty-five points between Spring, 1998 and Spring, 1999. A shift of this magnitude is not explained by different student cohorts. As the tests were not equated, these phenomena have sorely tested the credibility of the testing program and its utility in a high-stakes environment.

III. Key Issues

While Act 60 will again attract attention during the fall, 2000 elections, it has descended in relative political importance as issues such as health care costs, gay rights and transportation have ascended. If a conservative majority is elected, the reforms could be jeopardized. However, it is noteworthy that

attention of both opponents and proponents has shifted toward making the reforms work more effectively. Thus, current energy is focused on tinkering and evolutionary changes. This pattern is typical of Vermont's educational finance history.

The Effect of Gifts – One of the most effective points in marshalling political opposition to the reforms was towns sending "their" money to other towns. This feeling is strongest for the guaranteed yield recapture provision although the statewide property tax generates similar opposition. Gifts to school districts were exempt from recapture. Thus, a large number of gifts could be combined to reduce the amount of "above block grant" spending (and thus the amount recaptured by the state). It did not take extensive calculations for citizens and corporate interests in some gold towns to see that a "gift" would be less expensive than paying taxes.

Sixteen towns raised $7.3 million in gifts and thereby denied $15.7 million in recaptured monies.

The Freeman Foundation, based in the ski town of Stowe, offered to match local fund-raising dollar for dollar for a two-year period. Significant organization efforts were mounted to solicit gifts with some towns hiring fund-raisers to achieve this end. However, maintaining large-scale fund-raising efforts over time is difficult and the Freeman Foundation, facing considerable criticism, has announced that they will eliminate the matching funds.

The legislature is considering caps on gifts or outlawing the practice. For the time being, however, the legislature has adopted a wait-and-see attitude. Except for a small number of towns, the practice appears to be spiraling into a state of entropy.

The Guaranteed Yield/ Equalized Yield – The guaranteed yield was supposed to move from $42 per pupil per penny on the tax rate to an equalized yield in FY01. However, when the amount in the education trust fund showed that an equalized yield would plunge to $32 due to the effect of gifts and the removal of supplemental appropriations, the legislature guaranteed a yield of $40 for FY01.

Current law is that the education trust fund will go to an equalized yield in FY02. However, with the effect of gifts still unresolved and a favorable economy, it is expected that some form of guaranteed yield will be instituted for FY02 and possibly for some years in the future.

Special Education – While the guaranteed yield is the most important issue, the funding of special education is the most politically volatile issue. Current law has a cap of 5.5% on the state appropriation for FY01. At the same time, state law also says that the state will fund 60% of all eligible special education costs. Since plans for next year call for increases from 10% to 14%, these two provisions contradict each other.

Local districts object to the caps as bad financial management, a cost-shift to local districts and impossible under the constraints of state and federal law. At this writing, it is expected that the caps will be relaxed but a new set of cost-

control provisions will be implemented. The direction of these proposals is toward tighter monitoring, greater legal support for school districts, and expanded training of general and special education teachers.

Health costs – Vermont schools spend 8.5% of their budgets on health insurance premiums. Although less than similar increases in the private sector, schools face a 24% increase in health insurance premiums for FY01 (All Vermont schools participate in health insurance collaborative purchasing). In a state that measures budgets by the percent increase, the combined effects of health coverages, special education cost shifts, and salary increases translate into 6-8% increases in budgets without considering school improvement or equity efforts.

Thus, a great deal of the equalizing power available under the new law is absorbed in increases to these fixed costs.

Property Equalization – Vermont has historically used an "Aggregate Fair Market Value" approach to determining the property wealth of towns. Basically, market values are determined by the ratio of the assessed value to the actual selling price. These sales are then extrapolated to a market value for the town. This system was designed to compensate for the unique effects of different property listers in the different towns.

Needless to say, property value determinations are prone to controversy and Vermont is no exception. The driving force in reviewing and improving this system now comes from the more affluent towns who previously were not significantly effected by within town and across town historical disparities. As a result, Almy and Associates of Chicago were commissioned to study and recommend improvements to the system. Among the twenty recommendations were reducing the number of property classifications, using a third year of sales in the determinations, using town wide ratios in categories with too few sales to generalize to the town and training of district advisors. These recommendations are now being implemented by the administration.

Small Schools – With such a large proportion of school funding based on receiving a block grant of $5200 per pupil, small school revenues were extremely vulnerable to enrollment fluctuations. As a large number of schools have less than 100 students (many less than 50), financial stability was jeopardized if a few families left the district.

To remedy this problem, school districts with less than 20 students per grade level received an extra student count multiplier. The size of the factor increased as the number of students in the grade decreased. In effect, these were sliding categorical weights ranging from 0.015 to 0.19. (16 VSA 4015).

The amount received in the additional grants does not compensate for losses in enrollment in a state where elementary enrollments are declining.

Size of the Block Grant – Presently, the General State Support Grant (block grant) is tied to the cost of government goods and services. This index is not seen as an adequate reflector of school inflationary costs. The result is a shift to

the guaranteed yield. In turn, this calls upon the general fund to replenish the education trust fund. If (or when) the system goes to an equalized yield, the effects could be quite pronounced. This Use of the CPI and the Growth in state Budget Expenditures are being modeled as more appropriate indices. The use of increases to the gross state product is being considered for special education funding.

Public High School Choice – A bill passed the Senate in 1999 for mandatory public high school choice (grades 9 – 12) within self-identified regions of the state. Local districts may make their own financial arrangements but this language is contradicted in that the block grant is to go with the child. The House Education committee only began to review the bill in mid-April, 2000. It appears that without a hold-harmless for rural and small schools, the future of the bill is in doubt.

IV. Conclusions

Vermont's educational reform act of 1997 is now past the most controversial phase and is now in the process of incremental refinement. Even at this early stage, it is clearly achieving taxpayer equity. Education spending equity is emerging but this pattern is not yet as clear. The effectiveness of educational quality efforts is still uncertain.

The most critical short-term challenge to the funding program is whether the state sustains a guaranteed yield. Special education funding is problematic for Vermont as it is to the rest of the nation. This fastest growing area of education expenditures will ultimately drive a philosophical test regarding the definitions of handicaps and what services will be provided.

Fixes to the finance system will be required in small schools, methods of equalization, block grant increases and the like. However, these are incremental in nature.

As with all systems, the ultimate test resides in the citizenry's will to provide for and sustain equity for all students.

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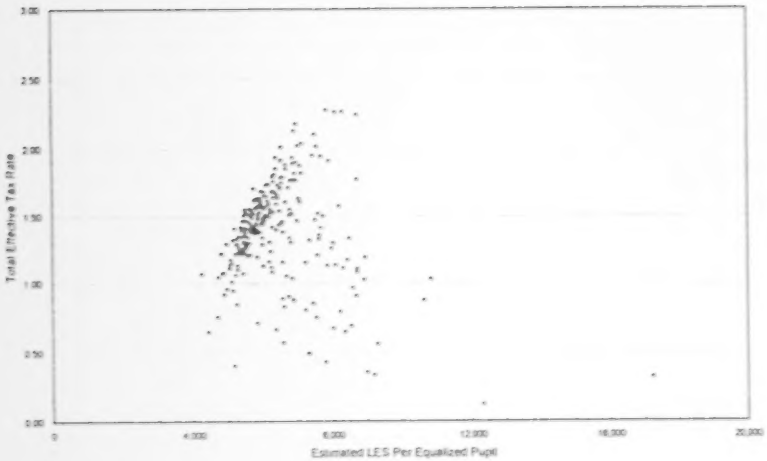

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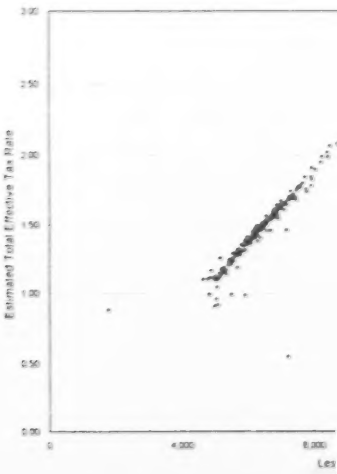

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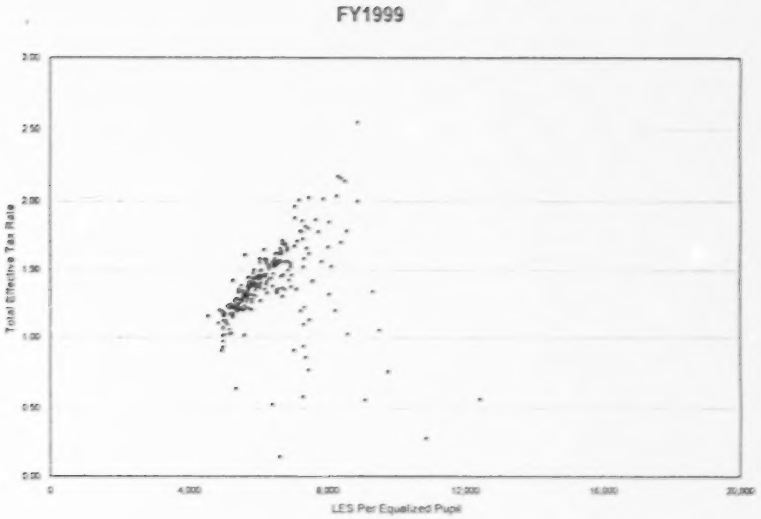

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